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Summary

1. (SBU) You are visiting Sarajevo when frustration over the failure of government at all levels is higher than at any time since the failure of the April Package of constitutional reforms in 2006. Governmental gridlock has been further fueled by conflicting visions among Bosnia's ethnic groups as to the future configuration of BiH as well as increased nationalist rhetoric in the run-up to the 2010 general elections. These factors combine to hinder the chances for BiH politicians to enact much-needed reforms to increase state functionality. Furthermore, interethnic tensions are growing. We, along with EU partners, embarked on a full-force engagement in October 2009 to find common ground among Bosnia's political leaders on a package of legal and constitutional reforms necessary to move Bosnia down the path of NATO and EU integration. However, to date our joint efforts have not been able to overcome narrow political interests. As we continue urging leaders to agree on constitutional reform, we are also pressing leaders to complete defense reform. Progress on the latter will increase BiH's chances for obtaining NATO MAP status and mitigate the threat of surplus weapons falling into the hands of malevolent domestic or international elements. Your engagement with BiH interlocutors on the necessity to complete concrete steps toward defense reform will greatly boost our overall chances of success. End summary.

U.S. Policy in Bosnia

2. (SBU) Our policy in Bosnia has been straightforward and has enjoyed bi-partisan support for 14 years since the signing of the Dayton Peace Accords. We seek to maintain Bosnia as a single state and to ensure that the state is strong enough to take its place and meet its obligations as a member of NATO and the EU. Any talk of partition is destabilizing and dangerous. At the same time, we have sought to ensure that power in Bosnia remains decentralized enough so that no group -- Bosniaks, Serbs, or Croats -- feels disenfranchised by the others. Finding the right balance remains a work in progress. You will want to stress with your interlocutors:

--our government's concern for Bosnia's future;

--our commitment to continued engagement and to the

territorial integrity and sovereignty of the country;

--and our support for a strong, stable, functional, and democratic Bosnia capable of taking its place in Euro-Atlantic institutions.

Ethnic Groups have Conflicting Visions

¶3. (SBU) The fundamental problem in Bosnia remains that the state lacks legitimacy among the three largest ethnic groups, as Bosniaks (Muslims), Serbs, and Croats differ in their visions about the kind of Bosnia in which they want to live. Our policy in responding to these divergent visions is that there must be "no unilateral abolition of the entities, no secession of entities, and no third entity."

Bosniaks

¶4. (SBU) Bosniaks who make up close to 50 percent of the country's population, want a strong, centralized state with governing structures that include minimal ethnic checks and balances. Some seek to abolish the Republika Srpska (RS), which many Bosniaks consider a product of the genocide and ethnic cleansing during the 1992-1995 war. Others have raised in recent discussions a desire to remove the Dayton provision for vetoes of national legislation at the entity level, a mechanism that has been significantly overused by the Bosnian Serbs.

Serbs

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¶5. (SBU) Serbs, after years of attacking the Dayton Accords, have now embraced Dayton's entity-based structures and weak central state. But, over the last several years they have sought to roll back reforms designed to make Dayton work and advance Bosnia's Euro-Atlantic aspirations, arguing that such reforms were not explicitly provided for in Dayton. Many Serbs would prefer the dissolution of Bosnia in favor of the independence of the RS. The RS National Assembly is currently considering a Law on Referenda that could open the door later this year to the RS populace voicing its opinion on NATO Membership and/or secession. Even the most enlightened Bosnian Serbs continue to demand that the RS's status remains unchanged, i.e. that none of the relative autonomy of the RS vis-a-vis the state be surrendered, regardless of the demands of EU or NATO accession.

Croats

¶6. (SBU) Croats aspire to their own entity, or at minimum formal safeguards which guarantee political defense of "Croat interests," however defined. In discussions on political reform with the U.S. and the EU, they remain concerned with the perception that, while Bosnia has three "constituent peoples," the Bosniaks and Serbs appear to each exercise political control in an entity while Croats, in the minority in both the Federation and Republika Srpska, do not.

Differing Views on OHR and Transition to EUSR

¶7. (SBU) In this divisive environment we are working with our European Allies to determine the future of the Office of the High Representative (OHR), the international institution responsible for overseeing implementation of civilian aspects of the Dayton Peace Accords. As per a decision from the Peace Implementation Council (PIC) OHR's closure and transition to become the European Union Special Representative should occur only after the fulfillment of five objectives and two conditions ("five plus two"). Most

Europeans and the Russians are anxious for transition as early as possible, although the Europeans declared at the PIC session that they will join us in insisting on Bosnia's full completion of "five plus two" before closure. We believe this approach would protect the international community's credibility in Bosnia and thereby ensure that the EUSR has a stable beginning. Bosnian Serbs seek the immediate closure of OHR. Republika Srpska Prime Minister Milorad Dodik has made numerous, provocative statements suggesting he will roll back OHR's state-building efforts as soon as the office closes. Furthermore, he stated at the PIC that he will ignore any further use of the Bonn Powers in the meantime. Meanwhile, the Bosniaks' fear of Dodik's behavior, combined with the specter of a weakened international community, tempts them to obstruct efforts to fulfill "five plus two" to keep OHR open. Party for Democratic Action (SDA) President Sulejman Tihic at the PIC session went so far as to declare that OHR's closure "in this complex political and constitutional situation" could lead to conflict.

The Need for Constitutional Reform and the Butmir Process

18. (SBU) Because Bosnia's fractious politics were impeding progress towards EU and NATO integration, the European Union and the United States initiated in October an intense joint diplomatic effort to resolve impasses on several key reforms and modest constitutional changes to make the state more functional and put Bosnia back on the path to Euro-Atlantic integration (sometimes called the "Butmir" package). We told Bosnia's leaders that reaching agreement on substantive constitutional reforms like those suggested in the U.S.-EU initiative as well as making concrete progress toward completing defense reform would encourage NATO allies to support Bosnia in its ambitions for MAP, as well as help Bosnia make progress towards EU integration. However, most political leaders failed to show willingness to compromise and the initiative, to date, has not brought results. We continue to remind interlocutors at all levels of government of the urgent need for them to come up with a constitutional reform package, which is acceptable to a majority of BiH parties and that improves state functionality. A recent decision by the European Court of Human Rights in Strasbourg

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declared certain provisions of the BiH Constitution discriminatory, thus increasing pressure to enact constitutional reform.

Political Climate Hinders Defense Reform

19. (SBU) The lack of progress on the U.S.-EU initiative on constitutional reform illustrated how far apart the parties are on reaching substantive agreements that would make a more functional state or even resolve outstanding issues like state and defense property. In the meantime, RS Prime Minister Milorad Dodik is ever more boldly challenging the international community and Bosnia's state institutions by laying the groundwork to hold entity-level referenda on decisions of the High Representative. With elections approaching in October 2010, political leaders from each ethnic group are ratcheting up nationalist rhetoric and their maximalist demands, thus making it less likely that they will be able to reach bold agreements on substantive issues that would advance Bosnia's Euro-Atlantic aspirations. Bosnia's leaders may tell you that the apparent conditioning of Membership Action Plan (MAP) on constitutional reforms derailed the process, but in fact reforms have been stalled for over a year. Any progress on defense reform will require focusing on the necessity of reform now and the fact that Bosnia risks getting left behind its neighbors.

-- You may wish to clearly tell your interlocutors that progress on defense reform is a necessary, though not

sufficient, condition for gaining U.S. support for Bosnia's MAP bid.

Defense Reform and MAP

¶10. (SBU) Your visit comes as Bosnia's leaders are frustrated over their country's lack of progress towards NATO. Bosnia's Presidency and defense leadership feel that NATO Allies unfairly passed up Bosnia in December when they allowed Montenegro to begin a Membership Action Plan (MAP). At the same time they are aware that Bosnia's reform agenda--including defense reform--is stalled, and Bosnia's defense institutions are facing the greatest challenge since the creation of a unified Defense Ministry and command structure in 2006. Since beginning Intensified Dialogue (ID) and Individual Partnership Action Plan (IPAP) processes in fall 2008, Bosnia has made little progress on its substantive reform objectives. A 2009 NATO assessment, approved by the North Atlantic Council, summarized: "The main finding of this assessment is that work on reform objectives is seriously hindered by Bosnian politics and political change will be essential to BiH's success in IPAP." Bosnia's leaders vociferously argued that the Butmir process unfairly linked Bosnia's MAP application to constitutional changes. We have stressed to Bosnia's leaders that it was the other way around: Butmir was a response to Bosnia's inability to address blockages in its reform agenda. Nevertheless, you may expect your interlocutors to accuse the EU-U.S. initiative of derailing their MAP application.

--It would be helpful to remind Bosnia's defense leadership that the defense reform agenda remains incomplete;

--that point out that progress towards NATO is merit based;

--and that without reform, those obstacles identified in recent assessments are likely to be identified in subsequent assessments.

Surplus Arms and Ammo Are Dangerous, Costly

¶11. (SBU) A special challenge, and one you may be able to help on, is the issue of destroying surplus arms and ammo. Bosnia's 100,000 excess weapons and thousands of tons of dangerous excess ammunition and explosives remain scattered around Bosnia in the same caches where they were stored by the entity armies during the 1992-1995 war, and the Armed Forces remain unable to consolidate them. Besides being burdensome for the Armed Forces, this presents the obvious threat of theft or self-ignition. Bosnia's Presidency approved only 3,700 tons of Bosnia's unstable excess ammunition for destruction, and no weapons, and have slated

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the rest for sale. The Ministry has made no progress in its putative attempt to sell the remainder of the surplus, a process for which the Ministry has no capacity and that will take years to complete according to Bosnian tender law. UNDP, EUFOR, NATO HQ and OSCE, all of whom have weapons experts on the ground in Sarajevo, have repeatedly written joint letters to Bosnia's Presidency that there is no responsible option other than destroying the thousands of tons of excess.

--In your meetings, you should urge the Minister of Defense to send the Presidency a decision to destroy the majority of Bosnia's excess weapons and ammunition;

--You should urge the Presidency to accept and act quickly on such a recommendation;

--You may wish to add that the U.S. has programs to assist them in destroying excess ammunition and weapons once they make the decision to do so.

Challenge of Demobilizing Soldiers

¶12. (SBU) The Ministry of Defense (MoD) is in the process of terminating the contracts of 2,700 soldiers--nearly half the infantry--who will have reached a legal age limit of 35 for enlisted soldiers. Disgruntled soldiers who faced termination met in January to discuss possible public demonstrations even though it is illegal for active servicemen to protest in Bosnia. Bosnia's MoD viewed the protests as a serious threat to the discipline and command of the Armed Forces, and took resolute action to halt it. However, we remain very concerned about the possible threat to this vital state institution posed by soldiers threatening to take to the streets while still in uniform. This problem will require continual management and a strong response from state organs.

Current Status of the Economy

¶13. (U) Bosnia enjoyed healthy growth through 2008, averaging six percent per year between 2003 and 2008 with low inflation. This along with important financial sector reforms culminated in the signing of a Stabilization and Association Agreement with the EU in June 2008. The boom came at a price, however, as the two entities -- particularly the Federation but also the RS -- overextended themselves with unsustainable social programs for decorated war veterans, war invalids, and war victims, without regard to actual need, as well as highly favorable pensions for demobilized soldiers. These programs have created strong disincentives to work, contributing to an official unemployment rate of 40 percent, yet at the same time failing to address poverty. The economy is expected to shrink by 3 percent in 2009, and rebound slightly by about 0.5 percent next year. The global downturn has also led to a steep fall in trade. Bosnia's merchandise exports for the first nine months of 2009 fell by 21 percent and imports by 26 percent compared with the same nine-month period in 2008. Inflation has come down in recent months, and is expected to be 1.6 percent for 2010.

IMF Stand-By Arrangement to the Rescue?

¶14. (SBU) When the global financial crisis struck, the economy deteriorated rapidly, and the government turned to the IMF. A \$1.6 billion IMF Stand-By Arrangement was signed in June 2009, to be disbursed in twelve quarterly tranches over three years. The World Bank is prepared to back the IMF program with an additional \$100 million budget support program, and the EU is offering a similar package worth \$150 million. Among the key conditions of the IMF program were cuts in the 2009 and 2010 budget and legislative measures to change the veterans' entitlement system to a more affordable needs-based system of social benefits. However, veterans' organizations have been key supporters of the ruling SDA party in the Federation, and have exerted steady pressure against the IMF-driven reforms. Although the first tranche of the program, worth over \$275 million, was disbursed in July, the Federation's ability to withstand the internal political pressure to stay on the program is shaky. Bosnia failed to

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implement the necessary legislative reforms in time to receive its second IMF disbursement on schedule at the end of ¶2009. As elections approach, passing these reforms is becoming increasingly difficult.

ENGLISH